DOCUMENT RESUME

ED 243 406 HE 017 317

TITLE	Quality in the Pell Grant Delivery System. Volume 2: Corrective Actions.
INSTITUTION	Advanced Technology, Inc., Reston, VA.
SPONS AGENCY	Office of Student Financial Assistance (ED), Washington, DC.
PUB DATE	30 Apr 84
CONTRACT	300-80-0952
NOTE	79p.; For related documents, see ED 217 788-791. For Executive Summary and Volume 1, see HE 017 315-316; for Volume 3, see HE 017 318.
PUB TYPE	Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	Administrators; College Role; Compliance (Legal); Delivery Systems; *Eligibility; Error Patterns; Federal Aid; Federal Programs; Financial Aid Applicants; *Grants; Higher Education; National Surveys; Program Improvement; Program Validation; *Quality Control; Records (Forms); *Resource Allocation; Sampling; *Student Financial Aid; Student Financial Aid Officers
IDENTIFIERS	*Pell Grant Program

ABSTRACT

The Pell Grant Quality Control Study of 1982-83 was designed to identify program error rate, to measure the impact of increased validation activity, and to propose corrective actions to reduce the misallocation of program funds. A sample of approximately 4,000 students drawn from a sample of 317 participating institutions showed that Pell Grant recipients in 1982-83 were granted 13 percent more than they should have been, although both student and institutional error dropped from 1980-81. The study confirmed that institutions complied with the revised validation requirements for the Pell Grant program in 1982-83. Several corrective action alternatives are presented in Volume 2 to further reduce both student and institutional error. The role of corrective actions are discussed in the context of quality control. The effectiveness of prior corrective actions, including simplification of the Pell Grant payment schedule and in-year updating of enrollment status are examined. Recommendations are offered for reducing application and institutional errors regarding: improper identification of dependency status; incorrect reporting of other non-taxable income, household size, number in postsecondary education, adjusted gross income, cost of attendance, and income of dependent students; incorrect determination of enrollment status; incorrect award calculation or disbursement; and no financial aid transcript for transferred students. Additional recommendations are given for keeping error out of the application process and for formalizing the role of the institution in quality control. (Author/LB)

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ED243406

QUALITY IN THE PELL GRANT DELIVERY SYSTEM

VOLUME 2
CORRECTIVE ACTIONS

CONTRACT NO. 300-80-0952

Submitted to

Office of Student Financial Assistance
Department of Education

April 30, 1984

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SUMMARY

The major purpose of any quality control study must be the improvement of quality or reduction of error through the identification, selection, and implementation of corrective actions. As noted in Quality in the Pell Grant Delivery System: Volume 1, Findings, the level and extent of error are evidence for the continuing development of corrective actions. On average, Pell Grant recipients in 1982-83 were granted $129, or 13 percent more than they should have been--a 24 percent decrease in average net overaward from 1980-81. Over 62 percent of the aid recipients received awards in error by more than $2 and over 42 percent had award errors in excess of $100. In all, an estimated 1 million Pell Grant recipients were overawarded $465 million, while an estimated 500,000 recipients were underawarded $139 million.

In this volume, two themes are used in developing corrective actions for six specific application errors:

- Targeting validation toward the types of students or types of error that would have the highest payoff. This is a form of remedial corrective action.
- Improving the application form by either clarifying definitions or requesting clarifying information. This is a form of preventative corrective action.

Applying these two themes to the six selected application errors yielded the following specific recommendations:

Recommendation 3.1: In order to reduce dependency status errors we recommend expanded validation of first-time independent applicants and tightened procedures and documentation requirements.

Recommendation 3.2: To reduce error in reporting nontaxable income we recommend that the required components be itemized to minimize accidental omissions and that the validation

selection process be modified to select those cases where other income sources are suggested by family demographics.

We encourage additional training opportunities (workshops and written materials) to instruct financial aid personnel on how to read tax returns and similar documentation which can be useful in identifying correct amounts of income from these sources. We also urge the Department to explore additional data matches with the agencies providing these benefits, as a means of automated validation on the "front end."

Recommendation 3.3: To reduce error in reporting household size we recommend pursuing improvements in the application and instructions to increase the accuracy of reporting by listing the family members being included in household size.

We recommend that the Department give consideration to replacing prospective household size with number of tax exemptions.

Recommendation 3.4: To improve the accuracy of the multiple student allowance we recommend changing the application to require listing the names of all household members in post-secondary education. In addition, the issue of whether parents should or should not be included needs to be clearly defined in the application instructions.

Recommendation 3.5: To improve the reporting of Adjusted Gross Income we recommend that the application and instructions specify that, to the extent possible, the applicant should complete their Pell Grant application after completing their or their parents' Federal tax forms.

We recommend that validation selection be evaluated, revised, and monitored as a regular processing year event.

Recommendation 3.6: To reduce error associated with incorrect reporting of dependent student income we recommend that the Department validate those applicants whose projected income drops to less than half of base year income by requesting the student's tax form.

In addressing four specific institutional errors, the following two themes were utilized:

- Simplifying procedures and policies, for example, enrollment status regulations and the payment schedule

- Putting more emphasis on the institution as the focus of quality control.

The four specific recommendations which derive from these themes concerning specific institutional errors include:

Recommendation 3.7: To reduce error attributable to enrollment status reporting we recommend that the Department solicit extensive comment from all interested parties as part of the normal rulemaking process on the date-certain approach and on the impact of various alternative cutoff dates.

Recommendation 3.8: To improve the accuracy of cost of attendance reporting we recommend instituting a more structured cost of attendance formula which realistically reflects average student circumstances at different types of schools.

Regardless of the formula used, we recommend that comment be solicited from all interested parties on the establishment of a cutoff date for cost of attendance set by each school.

Recommendation 3.9: To improve the accuracy of award calculation and disbursement we recommend that an individualized payment schedule be included on a revised format for each official SAI.

Recommendation 3.10: To eliminate confusion and error associated with missing financial aid transcripts we recommend consideration of a proposal to drop the FAT as a Pell eligibility requirement now that aggregate award limits have been eased, except perhaps for within-year transfers.

We also recommend that the aid administrator be permitted to place a "proxy" FAT in the student's file if a hardcopy cannot be obtained after reasonable effort.

The above specific recommendations are augmented by five broad-based recommendations which also derive from the above themes for institutional and application errors. These recommendations for further improving the delivery of Pell Grant funds include:

Recommendation 4.1: Development of a suitable "split form." We also recommend that the instructions and specifications for the following items be augmented:

-- other nontaxable income
-- household size
-- number in postsecondary education.

Recommendation 4.2: Substitution of "own residence" and "self support" criteria for the current parental residence and support criteria as a means of improving the ability to document and verify dependency status.

Recommendation 4.3: Evaluation of each item in the family contribution schedule as to its impact on award size and distribution as well as its reliability, sensitivity, and ease of validation.

Recommendation 4.4: Establishment of a cutoff date for student-initiated corrections for all applicants. For validated applicants, no further corrections would be permitted after validation.

Recommendation 4.5: Establishment of the institution as the quality control focal point by developing regulations, providing incentives, and providing technical assistance. In addition, the Department should assume the quality assurance function.

CHAPTER 1
INTRODUCTION

A quality control study has three major purposes: to measure the level of error, to determine probable causes, and to develop and assess alternative corrective actions. The 1982-83 Pell Grant Quality Control Study has been conducted with these purposes as the cornerstone of all related activities. The final report also reflects this triad of purposes in its organization and presentation. The study findings with respect to levels of error and probable causes are presented in Volume 1, Findings. This volume, Corrective Actions, examines the management factors associated with this error and recommends corrective strategies. An accompanying third volume, Procedures and Methods, describes the procedures used to collect, process, and analyze the data which produce the error findings.

In this introductory chapter, the role of corrective actions in the quality control (QC) cycle is discussed. Subsequent chapters present analyses of corrective action alternatives and recommendations for both item-specific and general delivery system management actions.

1.1 THE ROLE OF CORRECTIVE ACTIONS IN THE CONTEXT OF QUALITY CONTROL

Quality control is cyclical in nature as depicted in Figure 1-1. The first steps, involving specification of the subject for control (Step 1), definition of a measurement unit (Step 2), and establishment of a performance standard (Step 3) represent the task of defining quality. The next two steps (Steps 4 and 5) are concerned with the actual measurement of quality. In Step 6 actual performance is compared with standards in order to identify and document errors. Corrective actions are selected (Step 7) and implemented (Step 8) as the final stage of a complete cycle. However, once the cycle is completed, maintaining a high level of quality requires repetition of the cycle as indicated by Step 9.

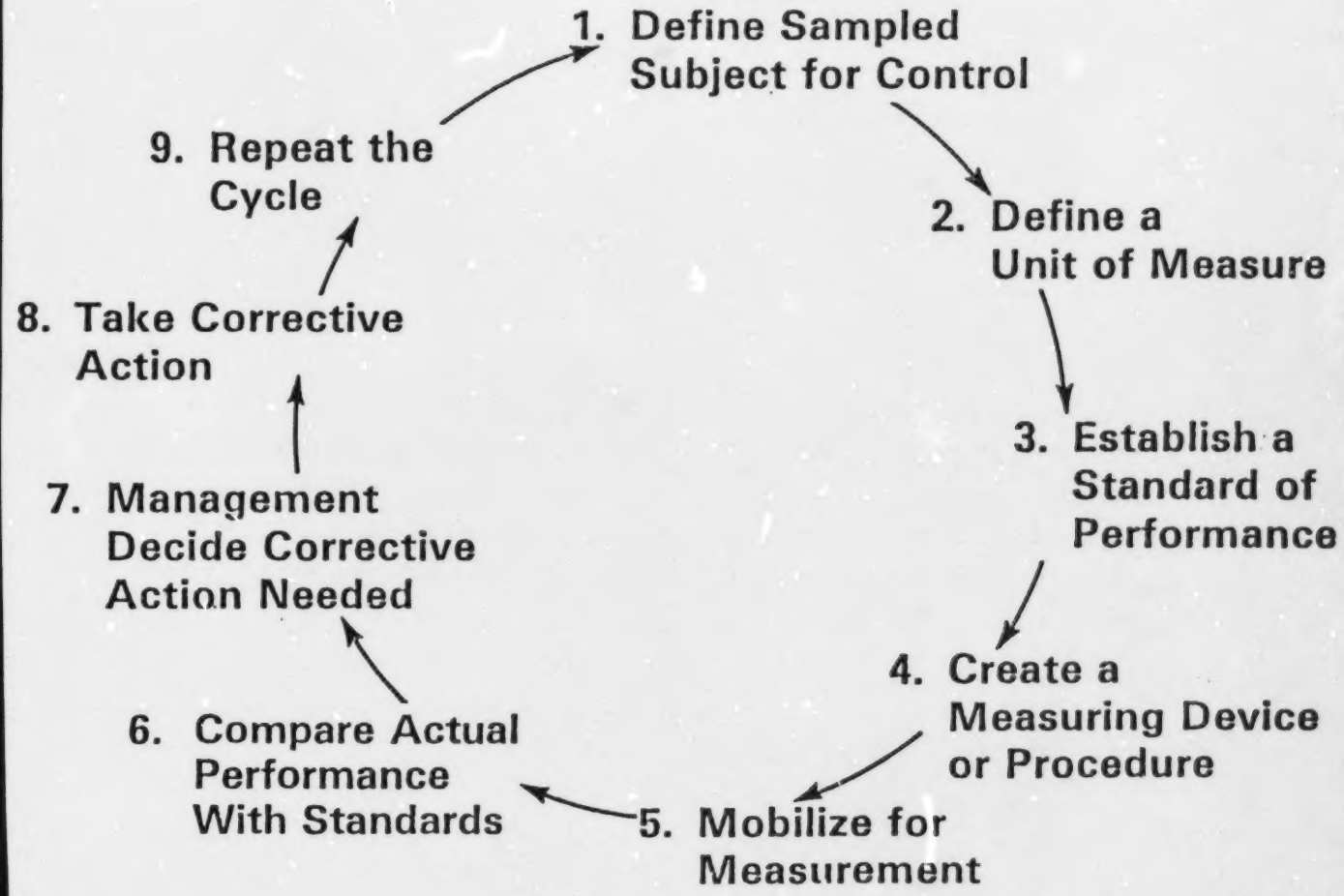
1. Define Sampled Subject for Control
2. Define a Unit of Measure
3. Establish a Standard of Performance
4. Create a Measuring Device or Procedure
5. Mobilize for Measurement
6. Compare Actual Performance With Standards
7. Management Decide Corrective Action Needed
8. Take Corrective Action
9. Repeat the Cycle

FIGURE 1-1

THE QC CYCLE: FEEDBACK LOOP

This volume of the Pell Grant study final report was also written in the context of the quality control cycle. The results of the earlier steps in the cycle define the need for corrective actions. In Volume 1, Findings, the steps of error definition and measurement in the Pell Grant program are described. While average error dropped between 1980-81 and 1982-83, substantial error remains. This error was isolated to several key factors--in quality control terminology, the "vital few"--through an analysis of the various components of error. This allows for the targeting of corrective actions to these key factors while placing less importance on attempts to reduce the relatively small effects of the "trivial many". Analysis and recommendation of corrective actions for the "vital few" are contained in Chapter 3.

A fundamental decision on the thrust of corrective actions is not explicitly revealed by the QC cycle. This decision is whether the nature of the corrective actions is to be preventative or remedial. Preventative corrective actions are geared toward removing the cause of error and thereby preventing errors from occurring. For example, application form simplification is a preventative action intended to reduce the number of mistakes a student would commit on a Pell Grant application. Remedial corrective actions are intended to catch and correct errors that have occurred. Current validation procedures, where applicant data are verified after the initial eligibility determination is made, are an example of a remedial corrective action. In subsequent chapters we discuss recommended corrective actions in the Pell Grant program in the context of their preventative or remedial nature.

1.2 RECOMMENDED CORRECTIVE ACTIONS

In the 1980-81 Pell Grant Quality Control Study, corrective actions to solve major error problems were proposed within broad themes. In an attempt to reduce student error, seven corrective action recommendations were proposed within three broad themes:

- Asking the applicant to prove need
- Improving the identification and validation of likely erroneous applications
- Making the application form itself less error prone.

With the 1982-83 project we see improvements in the quality of certain application data items (most markedly parental and independent student adjusted gross income and Federal taxes paid) as a result of actions implemented subsequent to 1981. This is discussed more fully in Chapter 2. Substantial error still remains however and we base our current corrective action recommendations on continued adherence to the latter two themes, rephrased to be:

- Targeting of validation
- Clarifying application instructions and data items.

More specifically, in Chapter 3 we develop and recommend the following corrective actions:

- Expanded validation of first-time independent applicants and tightened procedures and documentation requirements for these applicants
- Itemization of nontaxable income and selection for validation of those cases where other income sources are suggested
- The listing of the names of family members being included in household size
- The listing of the names of household members in postsecondary education and clarification of instructions on whom should be included
- Continued AGI validation but at a lower rate
- The validation of dependent student income where projected income drops to half of base year income.

Similarly in 1980-81 we recommended six corrective actions aimed at institutional error within three broad themes:

- Creating an incentive for students to complete course work
- Adding new verification requirements for critical Pell application items
- Changing administrative procedures to promote program compliance and reduce delay.

We shift the themes slightly for 1982-83 as a result of the government's movement towards less regulation and greater institutional discretion by:

- Combining the first two themes into one calling for making the institutions the focus of quality control
- Rephrasing the second to call for simplification of procedures and policies to promote compliance.

Specifically we recommend in Chapter 3:

- The consideration of specific cut-off dates for updating cost-of-attendance and enrollment status
- The adoption of a more structured cost-of-attendance formula
- The inclusion of an individualized payment schedule on each eligible SAR
- The simplification or exclusion of Financial Aid Transcript requirements.

In Chapter 4, we broaden our recommendations from being item specific to more general in nature. These recommendations relate to the application process, the corrections process, and the institutional process. Following the same broad student and institution themes mentioned above, we recommend:

- Improved application data collection through a "split form" and augmented instructions
- A changed definition of dependency status to improve the ability to document and verify
- An evaluation of eliminating data items from Pell Grant need analysis based on the items' reliability, sensitivity, and ease of validation
- The establishment of a cut-off date for student-initiated corrections
- The development of regulations, incentives, and technical assistance to promote the institutions' willingness and ability to perform quality control.

CHAPTER 2
EFFECTIVENESS OF PRIOR CORRECTIVE ACTIONS

2.1 PREVIOUS EFFORTS

In 1978-79, the Department of Education (ED) funded a pilot study of quality in the Pell Grant program. A sample of 2,000 students attending 200 institutions was used to test the feasibility of various data collection and analysis techniques related to quality control for a student aid program. The pilot study also produced preliminary error findings and a list of recommendations for corrective actions.

The result of that study was an increased realization of potential problems in the application and award process for the program and of the need for management improvements. Subsequent actions included:

- Improved computerized edits to check inconsistencies in the student's application for aid
- Field-tests of Pell Grant application form prototypes by an independent contractor to lessen difficulties in filling out the application for aid
- Introduction of institutional validation of selected application items on a sample of eligible students chosen by pre-established criteria thought to be related to student error
- The procurement of contracted services to conduct a full-fledged Pell Grant quality control project.

The next Pell Grant Quality Control Project was initiated in September 1980. The purpose of the first stage was to continue the QC cycle for 1980-81. This involved the re-measurement of error using a larger, statistically representative sample of 4,500 students at 300 postsecondary institutions. Additionally, the error definitions were refined, the data collection and analysis methodologies were improved, and the findings were tied to specific short-term and long-term corrective actions. This report is for the next QC cycle, 1982-83.

In this chapter we review corrective actions taken by the Education Department since the 1980-81 processing year and, where possible, examine their effectiveness. We have identified seven corrective actions aimed at improving various parts of the Pell Grant award process. They vary in scope from a large-scale validation effort to the simple rewording of edit and error messages sent to the applicants.

2.2 THE APPARENT EFFECTIVENESS OF PREVIOUS CORRECTIVE ACTIONS

Between the time of the 1980-81 Quality Control Project and the data collection of this Stage Three (1982-83), the Education Department initiated five corrective actions aimed at improving quality. These were:

- A substantial increase in 1982-83 in the number of students selected for validation, focusing on application items verifiable by IRS tax forms
- The elimination of a separate Statement of Educational Purpose (SEP)--instead incorporating the SEP into the Student Aid Report
- The introduction of Error-Prone Model (EPM) criteria for validation selection
- The establishment of requirements for an independent quality control unit at the application processor
- The simplification of edit and error messages reported to applicants.

Although it is not possible to assess the impact of each corrective action independently of the others, we can get rough indications of the effectiveness of these attempts to improve quality. The evaluation of corrective actions by explicit measurement is an important step in the QC cycle. The measures of effectiveness relate to changes in the quality measures themselves--the increase or decrease in error associated with the components targeted by the specific corrective actions. In this section, we review those error changes as measured between 1980-81 and 1982-83.

It should be first noted that ED continues to introduce actions to improve Pell Grant program quality. Subsequent to our 1982-83 data collection, three corrective action procedures were introduced:

- Simplification of the Pell Grant Payment Schedule

- Cross-year editing of selected application items
- Required in-year updating of enrollment status and cost-of-attendance--"rolling" corrections.

These actions are briefly discussed at the end of this chapter.

2.2.1 Aggregate Results

As reported in Quality in the Pell Grant Delivery System: Volume 1, Findings, the upward trend in error noted in 1980-81, as compared to 1978-79, has been turned around. Specifically, absolute error per recipient dropped from $288 per recipient in 1980-81 to $239 per recipient in 1982-83. Similarly, net error per recipient dropped by 24 percent, net student error per recipient dropped 9 percent, and net institutional error per recipient dropped 49 percent. In 1980-81, 71 percent of all Pell Grant recipients had award errors in excess of $2. In 1982-83, this figure dropped to 62 percent. Despite some methodological limitations in making direct comparisons, it is clear that, in aggregate, the corrective actions that were introduced were successful in reducing error in the Pell Grant program.

2.2.2 1982-83 PROCESSING YEAR VALIDATION

In 1982, the Education Department initiated a large-scale validation process aimed at verifying the income and Federal taxes reported by all eligible Pell Grant applicants. The process was to be permanent, but after five or six months it was terminated because of objections from financial aid administrators who could not handle the large volume of cases and due to processing delays caused by the larger-than-normal volume of resubmissions. It was intended to replace the process used since 1980-81 which selected about 7 or 8 percent of the eligible applicants for validation using random selection and selection based on some pre-established criteria, and which required the financial aid administrator to verify seven items on the student's eligibility report. Under the new process, the aid administrator was only required to verify adjusted gross income (AGI) and Federal income tax (FIT) as reported on the parents' or independent students' 1040 tax forms. It was felt that restricting the validation to easily verified items would serve the double purpose of reducing the error in those items and easing the time spent on validation per recipient.

There were two other reasons for moving to large-scale validation. First, it was not possible at that time to identify the error prone cases, thus targeting or more focused selection could not be implemented. Second, OSFA was concerned with the problem that students only needed to appear needy rather than prove need. Validation through supporting documentation is a method of proving need.

The process proved to be quite effective in that the residual error rates for 1982-83 were significantly lower than found in 1980-81. For 1982-83 an estimated 102,000 recipients, 4 percent, were found to have error in AGI and FIT remaining after their last submission. For parents and independent students the AGI error had award consequences which amounted to $6.70 for each aid recipient in 1982-83. This was a decrease of 58 percent from the 1980-81 AGI award error of $16.10 per recipient. Program-wide absolute error for AGI amounted to $37 million (net error was $16 million).

When students are notified on their Student Aid Report (SAR) that they have been selected for validation, they have the opportunity to correct information on their application by resubmitting their SAR. Table 2-1 indicates two shifts in corrections behavior. First, total resubmissions have declined possibly as a result of the students being deterred by the threat of validation. Second, the corrections rate for reported income and taxes paid increased from 1980-81 possibly reflecting the effect of validation on these two items. Since validation measured the error between the value of the relevant item that the student should have reported--the "best" value--and the value of the item that was used, it is not possible to isolate this notification effect.

It also appears that focusing validation on just these two items allowed a significant amount of additional error to creep into two other items--other nontaxable income and the number in postsecondary education. Program-wide absolute error rose from $9.30 to $19.20 per recipient for the nontaxable income item and from $5.90 to $9.60 per recipient for the number in postsecondary education item, between 1980-81 and 1982-83, respectively.

2.2.3 ELIMINATION OF SEPARATE STATEMENT OF EDUCATIONAL PURPOSE

A separate Statement of Educational Purpose (SEP) was required to be on file with each student's Student Aid Report (SAR) until the 1982-83 processing year. But

TABLE 2-1

RECIPIENTS, RESUBMISSIONS, AND VALIDATIONS:
1980-81 AND 1982-83

Processing Year	Number of Applicants	Number of Resubmissions[1]	Number of Eligible Applicants	Percent of Resubmissions with Changes in Adjusted Gross Income and Federal Income Tax[2]	Number of Validated Recipients
1980-81	5,100,000	2,169,000	3,367,000	40.0%	251,000
1982-83	5,119,000	1,830,000	3,327,000	49.7%	1,281,000

2-5

[1]From program records of history corrections, resubmissions equal total transactions less original transactions.

[2]From Pell Grant Quality Control Study resubmissions for recipients only.

since 1978-79, it has been observed that for about 4 percent of all recipients, the institutions did not have a SEP on file. To reduce, in fact, to almost eliminate, this error it was decided to merge the educational purpose statement onto the SAR and have the student sign the institutional copy of the SAR.

As a result of this action, the incidence of error fell to below one-half of 1 percent in 1982-83 and the net error for each recipient fell from about $36 in 1980-81 to $5.40 in 1982-83. Net program-wide error fell to $10 million.

2.2.4 ERROR-PRONE MODEL FOR VALIDATION SELECTION CRITERIA

In 1983-84, the Education Department implemented a system to improve the accuracy of the validation process that used a model to identify those cases with the highest net payment error and flag those cases for validation. This was an attempt to sharpen the validation process by pinpointing the most significant errors.

The 1983-84 error prone model, which was sequenced after the existing selection criteria, was developed using a sample of recipients and the 1980-81 Quality Control Study data base.

For 1984-85, the Department is using an EPM which was developed, augmented, and refined using three different data sources, and it is expected to perform more effectively than the 1983-84 model.

2.2.5 INDEPENDENT PROCESSOR QUALITY CONTROL UNIT

Beginning with the 1984 processing year, it is a requirement that the Pell Grant processor maintain an independent quality control unit. Following on earlier recommendations from Advanced Technology and others, the Department decided that this unit would keep some operational problems at the processor to a minimum, including the physical handling of the applications, other paperwork, and the integrity of the applicant data.

The types of specific errors that this unit would be expected to resolve are:

- Accuracy of telephone inquiry responses
- Receipt control problems, e.g., incorrect batch size and document counts
- Coding errors for both application data and current status.

The effectiveness of this action has not yet been measured (see report "A Framework for a Quality Control System for Vendor/Processor Contracts," Advanced Technology for the Department of Education, September 1982).

2.2.6 SIMPLIFICATION OF EDIT AND ERROR MESSAGES

It was found that applicants were having difficulty interpreting some of the over 300 messages that can appear on the SAR. In some cases, it was also found that messages were in fact contradictory.

For the 1983-84 processing year, it was decided to reword some of these messages to try and reduce any misunderstanding. It is too early to measure the effectiveness of this action.

2.2.7 SIMPLIFICATION OF PAYMENT SCHEDULE

In an attempt to reduce "look-up" error, the Education Department revised the Pell Grant payment schedule by broadening the Student Aid Index (SAI) and Cost of Attendance (COA) ranges. Instead of $50 intervals, they were expanded to $100 intervals, thus cutting in half the number of payment cells and, consequently, reducing the chances of locating or "looking-up" the wrong cell. At the same time, however, these expanded intervals will result in awards that are somewhat less sensitive to SAI and cost of attendance difference.

This modification should also serve to reduce the number of recalculations that will be required when an applicant resubmits his form because it will take a larger change in SAI or COA before the award is affected. Having just begun in 1984, it is too early to measure the effectiveness of this action.

2.2.9 CROSS-YEAR EDITS

For the 1983-84 processing year, the Department initiated a set of "cross-year" edits which compare selected application items with comparable items reported in the previous year. Significant deviation from prior year values generates follow-up messages on the SAR and/or validation selection. There has been no opportunity to measure the effectiveness of this preventative action upon student error.

2.2.9 "ROLLING" CORRECTIONS

With the 1984-85 processing year, the Education Department initiated a new system which allows better tracking of a student's enrollment status and cost of attendance. Aid officers will now be required to update these two items when they learn of changes. This is a change from the previous system which delayed the reporting of enrollment status or cost changes until the end of the school year. This new system, which permits "rolling" corrections, will reduce the burden that some aid offices felt under the former end-of-year validation roster process.

Since the "rolling" corrections system has not yet been implemented, there is no evidence upon which to judge its effectiveness as a solution to enrollment status and cost of attendance errors.

CHAPTER 3

RECOMMENDATIONS FOR REDUCING APPLICATION AND INSTITUTIONAL ERRORS

In spite of the corrective actions already in place (as reviewed in Chapter 2), there is a body of errors that is either not addressed by those actions or appear to be somewhat impervious to reduction under current practices. In this chapter, corrective actions are presented and discussed which address 10 such errors. Our selection was based on the severity of the error, in terms of program-wide error (see Table 3-1), and the feasibility of potential alternative corrective actions.

In this chapter we will examine each error, its likely causes, its impact, possible means of error reduction, and our recommendations as to what action should be taken. A separate section is devoted to a discussion of each specific error. This is followed by a discussion of the implications of these recommendations on costs, benefits, and administrative requirements. Finally, we provide a summary chart of the problems, estimated error amounts and rates, and proposed recommendations.

In addressing the six application error areas, two themes were followed:

- **Targeting validation** toward the types of students (e.g., first-time independent students under 20 years of age) or types of error (e.g., income) that would have the highest payoff. This targeting will result in a reduction of burden for parents, students, and institutions. As discussed in Section 1.1, this is a form of **remedial** corrective actions.
- **Improving the application form** by either clarifying definitions (e.g., nontaxable income) or requesting clarifying information (e.g., names of household members). This is a form of **preventative** corrective actions.

In addressing the four areas of high institutional error, two other themes were followed:

- **Simplifying procedures and policies,** for example, of enrollment status regulations and the payment schedule
- Putting more emphasis on the **institution as the focus of quality control.**

TABLE 3-1

ESTIMATES FOR THE TEN SELECTED APPLICATION AND INSTITUTIONAL ERRORS

		Estimated Error ($ Million)				Recipients Affected	
		Overaward	Underaward	Net	Absolute	Number	Percent
APPLICATION ERROR							
3.1	Improper Identification of Dependency Status	$ 64	$ 0	$ 64	$ 64	139,000	5.5
3.2	Incorrect Reporting of Other Nontaxable Income	$ 46	$ 0	$ 46	$ 46	254,000	10.0
3.3	Incorrect Reporting of Household Size	$ 44	$ 10	$ 34	$ 54	256,000	10.1
3.4	Incorrect Reporting of Number in Postsecondary Education	$ 32	$ 9	$ 24	$ 41	149,000	5.9
3.5	Incorrect Reporting of Adjusted Gross Income by Parents and Independent Students	$ 26	$ 11	$ 16	$ 37	102,000	4.0
3.6	Incorrect Reporting of Income by Dependent Students	$ 13	$ 1	$ 12	$ 14	37,000	1.5
INSTITUTIONAL ERROR							
3.7	Incorrect Determination of Enrollment Status	$ 54	$ 94	$ -39	$148	564,000	22.3
3.8	Incorrect Determination of Cost of Attendance	$ 14	$ 35	$ -21	$ 49	273,000	10.8
3.9	Incorrect Award Calculation or Disbursement	$ 40	$ 16	$ 24	$ 56	311,000	12.3
3.10	No Financial Aid Transcript	$ 95	$ 0	$ 95	$ 95	81,300	3.2

3.1 RECOMMENDATIONS FOR REDUCING APPLICATION ERRORS

3.1.1 IMPROPER IDENTIFICATION OF DEPENDENCY STATUS

The task of truly differentiating between dependent and independent students is inherently imperfect. The three-part definition that is currently in use does not solve that problem, but it does define the boundaries within which applicants can err. In 1982-83, an estimated five and a half percent, or 139,000, of all eligible applicants were misclassified, resulting in net overpayments of $64 million (see Table 3-2).* In Chapter 4 we will take up the issue of how the current definition could be changed. In this section we will deal with minimizing or reducing error under the current definition through reliance upon validation selection criteria and documentation requirements.

Selection Criteria

How do we decide who should be selected for dependency status verification? From our study we learned that of those who were improperly identified 93 percent initially classified themselves as independent. Since this is the large majority of erroneous cases, we could decide to pull out for verification all those who reported themselves as independent. For 1982-83 this would have amounted to over one million cases and would probably impose unreasonable burden on applicants and institutions. This universal approach would also likely increase the number of corrections submitted to the processor. Since we found that only 12 percent of all independent applicants were misclassified, this universal approach appears unnecessary and it suggests that we should narrow our selection criteria to those who are most likely to be misclassified.

One approach to focusing the selection criteria is to verify the reported dependency status of only those applicants claiming independent status for the first time. This group would include any applicants who switched from dependent to independent while in school. Under this approach perhaps up to 500,000 applicants**

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*Underpayments were less than $500,000.

**The QC project data base does not have a cross-year comparative capability. Thus, the number or percent of applicants who are claiming independent status for the first time cannot be determined from these data.

TABLE 3-2

DEPENDENCY STATUS ERROR:
1982-83

		Recipients Verified To Be		
		Independent	Dependent	All Recipients
Recipients Reported To Be:	Independent	35.9% (908,000)	**5.1% (129,000)**	41.0% (1,037,000)
	Dependent	**0.4% (10,000)**	58.6% (1,483,000)	59.0% (1,493,000)
	All Recipients	36.3% (918,000)	63.7% (1,612,000)	100.0% (2,530,000)

would be selected for verification. The main rationale for this targeted approach, other than a reduction in the number of cases requiring verification, is that it would probably cut down any subsequent intentional erroneous switching because students would need to verify dependency status changes.

This level of verification is still quite high compared to, for example, the total of 250,000 recipients in 1980-81 who were validated not only on dependency status but on six other items as well. In an effort to further reduce this number we studied the likelihood that we could differentiate erroneous from nonerroneous cases on the basis of other information available to us on the application. Three applicant characteristics were tested to see how well they would predict dependency status error--age, marital status, and household size. The results are displayed in Table 3-3* and show a clear correlation among each of these three characteristics and incorrect filing as an independent student. By focusing validation of dependency status on the highly error-prone groups--young, unmarried, applicants from small households who file as independent students--an efficient remedial corrective action can be affected.

Implementing this proposal would simply require the ranking of the 18 groups formed by combining the 2-marital status, 3-age, and 3-household size categories. Cases falling into the group with the highest dependency status error would be selected for dependency status validation. Cases falling into the group with the next higest error rate would then be selected. Additional groups would be selected until the error rate of the next highest group falls low enough that validation of cases falling into that group is no longer justified.

Documentation Requirements

Once applicants have been selected for verification of this item, how can the aid administrator best determine if they are in error? In 1982-83 the documentation requirements for dependency status appeared fairly lax:

> "If the applicant is dependent, a statement signed by a parent and the applicant attesting to the three dependency questions is sufficient documentation. If the applicant is independent the applicant's signature is sufficient documentation."**

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*For a more detailed discussion see "A Specific Proposal for Increased Validation of Independent Students," Advanced Technology, November 1983.

**From Pell Grant 1982-83 Validation Handbook.

TABLE 3-3

DEPENDENCY STATUS ERROR BY
APPLICANT CHARACTERISTICS

	Percentage of Applicants Who Filed As Independent but Were Found to be Dependent
MARITAL STATUS	
Married/Separated	4.1%
Unmarried	9.7
AGE	
19 and under	20.2%
20 through 25	10.5
26 and over	2.7
HOUSEHOLD SIZE	
1	8.9%
2	7.5
3 or more	3.8

Those requirements provide the aid administrator no way of verifying the accuracy of reportedly independent applicants who comprise the overwhelming majority of erroneous cases. Further, there is no attempt to document each of the three dependency criteria for either dependent or independent applicants.

One form of documentation aimed at reportedly independent applicants would be to review the tax forms of their parents. Although exceptions would have to be made for certain cases, this would be the most straightforward means of identifying an error in both the exemption and support criteria. There appear to be some legal obstacles to this method for first-time independent filers since parents do not sign/certify the application. However, it holds promise for those who switch from dependent in the prior year to independent in the current year since verification would be for the prior year application which would have been signed by the parent(s).

Other forms of documentation such as rent receipts or mortgage payment stubs could serve as a check on residency criteria for independent applicants. The data show that over **43 percent** of the erroneous independent applicants were identified solely by checking their response to residency criteria. It appears that if access to parents' tax forms is not possible, then the focus of the validation process should be on the accuracy of the residency criteria response.

Also in the absence of the parents' tax returns, a signed affidavit of non-support from the parents would appear to be the next best documentation. This is at least likely to reduce the number of unintentional incorrect responses to the support criteria. Moreover, in the case of families who do not file Federal tax returns, this affidavit will probably have to suffice.

Recommendation 3.1: **We recommend expanded validation of first-time independent applicants and tightened procedures and documentation requirements for these applicants.**

3.1.2 Incorrect Reporting of Other Nontaxable Income

Item 27c on the Application for Federal Student Aid requests a dollar value for "all other nontaxable income and benefits (child support, disability income, etc.). (Use worksheet on page 12.)" The worksheet lists 14 items that are to be included in this

category. The applicant is to total the income from the applicable sources and enter that for item 27c. From our study of 1982-83 recipients, we found that 10 percent of all recipients -- **254,000** -- misreported this item and that all the misreporting was in the direction of understating the "true" value. The award consequences of this understatement amounted to almost $200 per recipient with error or about **$46 million** in net program-wide overawards.

The complexity of the application and instructions is probably the largest contributing factor to this error. Anyone completing the form without close attention to the instructions could easily miss one or more sources of income. Closely related is the difficulty of determining the values to be included. Since many of the components are nontaxable, they are not reported to the recipient on a W-2 or other form. As a result, there is a good deal of reliance upon the recipient's ability or willingness to recall these sources.

There are several alternative approaches to reduce this specific error, short of eliminating the item itself:

- Itemize on the application, rather than on the worksheet, the most significant sources of nontaxable income such as tax-free interest and unemployment compensation
- Limit the sources of nontaxable income which must be reported to the most significant and most easily documentable such as child support, welfare benefits, unemployment compensation, or tax-free interest
- If selected for validation, require official documentation of all such income
- Select for validation any applicant who reports any positive amount of other nontaxable income.

If the primary cause of this error is an unintentional omission of some forms of income that are supposed to be reported, the error could be reduced by providing more itemization on the application. This would reduce the potential for the applicant becoming lost in the instructions or overlooking a source of income if the instructions are ignored. This approach was used recently when Aid to Families with Dependent Children (AFDC) was listed as a separate application item to provide it more visibility. AFDC error is now a relatively insignificant source of program-wide error. (Unfortunately, previous studies did not determine the contribution that AFDC made to other nontaxable income before it was split out as a separate item, so we cannot

determine if the action was effective in reducing error.) Other studies have demonstrated that the more complete the definition that is placed on the form, and the less dependence placed upon separate instructions, the more easily and accurately the item can be completed.

Limiting the required sources would remove some of the less common and less substantive sources of other income and benefits which are difficult to document or perhaps have little affect on eligibility. It would assume, for example, that retirement and pension benefits would be going to persons with limited income, or that significant amounts of welfare or unemployment compensation or disability payments were going to families with zero eligibility indices and should not decrease Pell eligibility. The advantage of this approach, of course, is simplification of instructions, validation, and documentation. The primary disadvantage is the increased eligibility it would provide to those cases where this other income did make a difference.

Requiring additional validation documentation for those selected can be burdensome for several reasons:

- Official documentation from some of these sources is difficult to obtain. For example, the study interviews with institutional personnel pointed out the problem of getting documentation from some agencies, particularly the VA and welfare agencies
- It is often difficult to interpret the documentation that is available, for example, determining the various allocations of multiple benefits to appropriate parties
- Even when some documentation is provided, it is often impossible to determine whether or not all sources and amounts have been reported. Sources omitted in the original filing are also likely to be absent from the validation documentation.

Currently, if this item is zero on the initial application, neither the edit process, the validation selection process, nor the institution would check on the possibility of other income and benefits unless there were some other indications or inconsistencies, like taxable portions of such income on the tax return.

Recommendation 3.2: **We recommend that the required components of nontaxable income be itemized to minimize accidental omissions and that the validation**

selection process be modified to select those cases where other income sources are suggested by family demographics such as age and sex of family head.

We encourage additional training opportunities (workshops and written materials) to instruct financial aid personnel on how to read tax returns and similar documentation which can be useful in identifying correct amounts of income from these sources. We also urge the Department to explore additional data matches with the agencies providing these benefits, as a means of automated validation on the "front end."

3.1.3 Incorrect Reporting of Household Size

In 1982-83, we estimated that a little over 10 percent of Pell Grant recipients -- about **256,000** -- would require payment changes because they incorrectly reported their family size. These errors cost the program a net overaward of **$34 million.** While there is no indication in the study data that intentional exaggeration of household size is a significant problem, within-year upward corrections to household size should be subject to validation as well as monitoring and validating changes across years.

In-home interviews with students and their parents indicated that about one-third of the applicants who made errors on this item had difficulty completing the application. Beyond this, there is some difficulty projecting family size into the upcoming school year because the application can be filled out before the school year begins and because of rapidly changing family plans and circumstances.

There appear to be only a limited number of alternatives available to reduce this error. Most promising among them are:

- Change the application to require the listing of household members by name, age, and relationship
- Reinstate household size as a required validation item whenever it does not agree with the reported number of tax exemptions, then collect the itemized listing as a part of validation
- Use IRS tax exemptions in lieu of household size in the determination of the appropriate family size offset.

Revise the Application to Require the Listing of Members of the Household

This approach is consistent with that used by the IRS to determine the number of exemptions. The College Scholarship Service (CSS) form supplement also uses this technique to help establish the household size provided on the "core" document. One constraint to implementation of this option, in addition to concern about respondent burden, is the practical one of insufficient space on the present 2-page application. This problem could, however, be overcome with adoption of the "split form" application (see Section 4.1). This approach would at least have the benefit of providing the validator a better basis for identifying discrepancies.

Use Discrepancy Between Household Size and Tax Exemptions as a Validation Selection Criterion

This alternative would force reconciliation of any differences between these two similar elements as a part of the validation process. It has a number of problems, however:

- The number of exemptions, and thus the comparison, is available only for tax filers, which excludes 13 percent of dependent and 30 percent of independent Pell Grant applicants
- The definition of eligible exemptions is not identical to that of household size, although there is some correlation
- The number of exemptions is retrospective, while household size is prospective
- The ability to provide or secure documentation, one of the advantages of the tax exemption measure, is compromised if it is converted to a prospective measure
- Use of this criterion would mean flagging approximately 36 percent of the dependent cases and 22 percent of the independent cases for validation, perhaps more respondent and institutional burden than the Department might desire to impose.

Use IRS Exemptions Instead of Household Size in the Determination of the Appropriate Family Size Offset

This alternative is particularly appealing in its apparent contribution to simplification of the application. However, it has some of the same shortfalls cited above, namely:

- Some other measure would have to be used for non-filers of Federal tax returns
- Some sensitivity to changing family circumstances would be lost by the retrospective nature of the tax exemption
- Some sensitivity would also be lost for those households which are supporting other adults, but for one reason or another are not claiming them for tax purposes
- According to our study data, the tax exemption number would be different from household size in **36 percent** of the dependent cases and in **22 percent** of the independent cases. These differences do not always cause changes in payments because of other program features.

The major consideration concerning use of number of exemptions in place of prospective household size is one of program intent. The practical consequences of shifting are likely to be minor redistributions of program funds on the order of less than one percent for number of recipients and program expenditures.

Recommendation 3.3: **We recommend pursuing improvements in the application and instructions to increase the accuracy of that reported value by listing the family members being included in household size.**

We recommend that the Department give consideration to replacing prospective household size with number of tax exemptions.

3.1.4 Incorrect Reporting of Number in Postsecondary Education

The results of our study showed that about 6 percent of Pell Grant recipients misreported the number of household members who would be enrolled in postsecondary education. Most of these **149,000** recipients with error overstated the "true" number and, as a result, received awards that averaged over $160 more than were appropriate. In total, their errors resulted in $32 million in overpayments and $9 million in underawards, or a net program-wide overpayment of **$24 million.***

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*It should be noted that ED's optional validation instructions to institutions require letting the reported value stand unless it was evident that such an estimate was unreasonable at the time of application. Since reasonableness would be difficult to gauge, it is strongly suspected that very few changes were initiated by validation even where it was performed on this item because of noted inconsistencies in other documentation or at the institution's discretion. Our study techniques, on the other hand, made no such judgements and revised SAI (and award) for each case with discrepancy. Thus, the error rates cited in our study measure a different error than would be measured under the current validation policies.

Our study findings suggest that difficulty understanding the application and instructions is not a significant problem. In fact, only **16 percent** of those applicants misreporting this item acknowledged having any problem with Section C -- Household Information -- of the application. Even if respondents are timid about admitting a problem, there seems to be a good understanding of what is expected.

Although not revealed in the data, familiarity with the clarifications resulting from validation suggests that one uncertainty about this item is whether or not a parent attending school should be counted (a parent should be included as long as he/she is enrolled at least half-time). To a lesser extent, independent applicants wonder about inclusion of the spouse. In neither case is there much question about including dependent children based upon their enrollment status.

There are three potential corrective actions that could be utilized to address the error associated with the misreporting of number in postsecondary education.

- Amend the application to require applicants to list all persons included in the response to this question by name, age, and institution to be attended
- Require validation of all cases reporting more than one (the applicant) in postsecondary education
- Allow reporting of and adjustment to SAI for dependent applicants' siblings only, not for parents.

Require Applicants to List All Family Members to Be Enrolled in Postsecondary Education

This approach is an extension of the proposition advanced for household size, and could in fact be accomplished by adding a column to the household size listing format to indicate the school to be attended. This is the same approach used by CSS on its supplement to the core application for Pell purposes. The theory, as stated earlier, is that having to list rather than just count will increase the accuracy of the reporting. For those applicants filing their data with CSS, this listing would be available to the institution for verification purposes as well.

Require Validation of All Cases Reporting More Than One in College

Another way to address the possibility of applicants receiving more adjustment than they should is to validate each case reporting more than one family member in postsecondary education. However, this would require 400,000 to 500,000 validations, which may be more burden than ED will want to place upon the applicants or the institutions for this one error source. Moreover, it would not be a productive effort unless the current validation procedures were amended to permit corrections when discrepancies are found, regardless of the reasonableness of the estimate at the time of application. Intent to deceive is very difficult to determine, and the institution should not have to judge whether or not the estimate was reasonable, only whether it was accurate.

Restrict Adjustments for More Than One in College to Applicant Siblings

As noted earlier, anecdotal data indicate that whether or not parents attending postsecondary education are to be included in the estimate for number in postsecondary education is a source of confusion, if not error, in this item. Additionally, many financial aid administrators are concerned about the inclusion of the parent(s), as they tend to be only part-time, live at home, and otherwise do not place the same financial burden on the family budget as other dependents. Perhaps a direct allowance for unreimbursed tuition and fees would be a more appropriate treatment for the expenses associated with parental attendance, rather than including them in the more substantial adjustment process presently practiced. In any event, eliminating parents of dependent applicants would reduce applicant confusion about proper completion of the question. Alternatively, if parents are to be included, it would be useful to error reduction if parents were specifically mentioned in the instructions.

Recommendation 3.4: **We recommend changing the application to require listing the names of all household members in postsecondary education. In addition, the issue of whether parents should or should not be included needs to be clearly defined in the application instructions.**

3.1.5 Incorrect Reporting of Adjusted Gross Income (AGI) by Parents and Self-Supporting Students

From our study, we found that a significant amount of AGI error was uncovered through the extensive validation process that was in effect during 1982-83. The amount of error and the number of cases with error that remain are relatively small compared to other errors that we found, but the impact of AGI on the award computation makes it necessary to continue pursuing further error reduction. This is especially true for independent applicants where the "tax" rate on AGI is high and where the likelihood of other income is small. In all, we found 4 percent of all recipients -- about 100,000 -- had AGI error, which had program-wide payment consequences of $16 million in net overpayments.

It is likely that part of this remaining error may stem from two logistical situations:

- The family completes the application prior to completion of their Federal tax forms or
- The student completes the application without access to the parent's tax form.

Whatever the likely cause, there are four approaches to consider for error reduction:

- Notify applicants not to file for Pell Grant until Federal tax forms are completed
- Require submission of Federal tax forms along with application
- Require submission of Federal tax forms when eligible applicant submits SAR to an institution
- Maintain AGI validation, but at reduced levels addressed to a more targeted population.

Study data showed that there was about a $45 lower student error per tax-filing applicant for applicants who reported actual rather than estimated income and tax data. While the current application instructions encourage completion of the tax return in order to facilitate the completion of the application, the language could be made stronger to indicate that the form SHOULD NOT be completed until the tax

return is available for reference. If this instruction was followed, it would likely reduce the discrepancies between reported AGI and documented AGI. It would also reduce the completion of the application by the dependent student without close consultation with the parents. On the other hand, it might also have the effect of delaying submission of the application and creating processing backlogs later in the year. However, a similar requirement in conjunction with the Vermont State Grant Program had the opposite effect and caused the tax returns to be completed and submitted earlier. This alternative obviously would need a caveat for those who would not be filing Federal tax returns, so that they would proceed without delay.

A possible variation is to request that a copy of the return be attached to the application. This procedure would clearly slow down submission of the application because of problems getting the return fully completed and copied. It would also create a problem with the application processor, to receive and maintain the additional paper. Keeping tax returns matched with current applications would be nearly impossible because of the absence of any parent name or Social Security number on the application forms. Different last names in many cases preclude matching on that basis. Some provision for non-filers would have to be made, such as a statement of non-filing.

On the positive side, the submission of the tax return would permit the initial validation check to be made by the processor. Where agreement was noted, the tax return would not have to be provided to the institution unless there was need to follow up on some other discrepancy. This approach would transfer much of the burden of validation of AGI and Taxes Paid from the institution to the processors. It would allow institutions to concentrate upon exceptions and to pursue cases with discrepancies much more completely. In balance, we feel that requiring the tax return with the application would be effective, but would be too cumbersome for the processor and would represent a significant applicant burden.

Only requiring Federal tax forms when the eligible applicant submits the SAR to the school would lessen the delay in submitting the application and maintain the current processing load at the processor site. It would also maintain the validation burden at the institution, and would in effect be 100 percent validation if the returns were required with all SARs. This approach also creates more burden on both applicants and institutions.

The current validation approach has demonstrated its effectiveness as a means of reducing AGI error. This effectiveness should not noticeably depreciate with the reduced levels of selection from 1982-83, assuming the PEC edits and EPM selection are accurate in identifying the high error cases. We believe that the number of cases to be selected for validation should be reviewed each processing year. The methods of selection--PEC, EPM and, Cross-Year criteria--also should be reviewed each processing year in order to effectively target validation. By continuously monitoring, reviewing, and revising the selection process, the effectiveness of validation can be continuously improved.

Recommendation 3.5: **We recommend that the application and instructions specify that, to the extent possible, the applicant should complete their Pell Grant application after completing their or their parents' Federal tax forms.**

We recommend that validation selection be evaluated, revised, and monitored as a regular processing year event.

3.1.6 Incorrect Reporting of Dependent Student Income

Our study estimated that in 1982-83 about 3 out of every 10 recipients misreported dependent student income, but for only 1.5 percent of all recipients did this misreporting result in an award change. For those approximately **37,000** recipients, their awards would have been lowered by over $300 and program-wide costs would have been **$12 million** lower. The lack of accuracy on this item reflects the fact that it includes nontaxable income for which no records have been kept by the student and the error that may be associated with using estimated income during the upcoming school year.*

If the item is to be retained, then selected validation would be appropriate. For example, ED might require dependent student income to be validated where projected year income is less than 50 percent of base year income. Validation would include review of the student's own tax return.

Recommendation 3.6: **Validate those applicants whose projected income drops to less than half of base year income by requesting the student's tax form.**

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*Current policy permits the use of estimated income when school year income is expected to be less than 60 percent of base year income.

3.2 RECOMMENDATIONS FOR REDUCING INSTITUTIONAL ERROR

3.2.1 Incorrect Determination of Enrollment Status

Oftentimes the financial aid administrator computes a student's Pell Grant before the academic year begins, before the student has registered, and before they may have talked with the student. As a result, the aid administrator is not aware of the student's course load plans and, for purposes of computing the award, must assign the student to one of three enrollment categories--full-time, three-quarter time or half-time. From our study we found that in 1982-83 over 560,000 recipients had been categorized incorrectly and that two out of three of the recipients had received less than they should have. This incorrect determination of enrollment status led to $94 million in underawards, $54 million in overawards and a net program-wide underaward of $39 million.

Some of this inaccuracy is clearly the result of non-compliance on the part of the institutions in monitoring enrollment status. However, some portion of the discrepancy between actual enrollment status and the status used for determining Pell eligibility is a function of the latitude given to institutions in determining the enrollment status of recipients. In fact, current program regulations do not specify when the aid administrator should determine a student's enrollment status. The status used at the time the award is initially calculated is sufficient for the first payment period.

We feel that this error could be eliminated by specifying, in regulations, a date at which the aid administrator must check enrollment status, recompute the award (if necessary) and, after which, is not required to monitor any subsequent status changes for that semester.

This date-certain for the determination of enrollment status could be set at any of several alternative logical points during the term:

- Award disbursement date
- End of drop/add period
- End of tuition refund period (if there is one).

The date of disbursement would be the easiest for institutions to implement, but would give the greatest potential for mispayment, because of subsequent adjustments the student might make. In fact, if time of disbursement was to be selected as the date-certain, we would expect most institutions to be in compliance under current practices. It also provides, as our study procedures revealed, some difficulty in providing an audit trail, since many institutional academic and financial record systems do not carry all changes to course load by date, but only the most recent date.

Confirmation of the changes at the end of the drop/add period poses a similar difficulty, since that is an academic definition often not reflected in the financial record systems of the institution. Potential for mispayment is less for time of disbursement, as there would be fewer changes to course load beyond the end of the drop/add period, but the need for the aid office to make award corrections would be more burdensome.

The end of the refund period may be the best alternative, at least with respect to course load changes, inasmuch as any subsequent changes to course load would not put additional money in the student's pocket. It also is a point in time more easily identified in the institution's financial records.

Recommendation 3.7: **We recommend that the Education Department solicit extensive comment from all interested parties as part of the normal rulemaking process on the date-certain approach and on the impact of various alternative cutoff dates.**

3.2.2 Incorrect Determination of Cost of Attendance

A change in a student's course load or in room and board arrangements can alter a student's Pell Grant eligibility. But, just as with enrollment status, aid administrators have little guidance on adjusting cost of attendance subsequent to their initial award determination. Through our study we found that about **275,000** recipients -- 1 in 10 --had received an incorrect award because their cost of attendance had changed for reasons other than course load changes. And the net program-wide error amounted to underawards totalling **$21 million.**

The present law and regulations provide a substantial number of options to the institution. The Pell Grant program originally required institutions to derive actual

cost of attendance data for each recipient, including the exact tuition and fee charged and the exact institutional room and board bill paid. This proved to be particularly onerous to institutions which charged tuition by the credit hour and/or had a number of different room and board rates. The law was changed by the Education Amendments of 1980 to permit the use of average rather than actual charges. But the regulations still provide the opportunity for an institution to use a considerable number of "average" budgets for Pell Grant purposes. While such flexibility may be desirable from the standpoint of sensitivity to the recipient's actual costs, it does provide for a margin of error when the recipient is incorrectly placed in an average cost category. We feel that the use of a more structured formula approach to cost of attendance would reduce the opportunity for error.

One example of a more structured approach would require reducing options available to institutions for varying the Pell Grant budgets of recipients. Five options might be offered:

- A single tuition and fee allowance for each independent institution, based upon the standard charge for full-time undergraduate study, would be mandated. If charges are assessed by the credit or clock hour, the course load incurred by the largest number of full-time students enrolled in the previous academic year would be used to determine the "standard" charge.

- A dual tuition and fee allowance for public institutions, one for in-state residents and one for out-of-state students, would be required. Tuition and fees for each group would be based upon a standard charge as described above.

- A single room and board allowance for residential students (anyone not living with parents, regardless of whether room and board are contracted with the institution) would be instituted. It would be determined from the average cost of institutionally-provided room and board, adjusted to 21 meals per week. (If the institution does not provide either room or board from which to derive an average, the average prevailing rate for housing and/or meals in the local community would be used.)

- The national standard maintenance allowance for students living with parents would be continued.

- The national standard allowance for books, supplies, and miscellaneous expenses would be continued, ideally at a more realistic level.

This more structured formula approach to cost of attendance would likely reduce the opportunity to place students into incorrect budget categories. It would also eliminate the need to adjust the budget for changes in course load that do not involve

enrollment status change or for shifts in residence or board arrangements that do not involve living with parents. Thus, there would be greater accuracy in cost of attendance determination and greater consistency of treatment both within and among institutions.

The primary disadvantage is some loss of sensitivity to legitimate differences in cost not adequately reflected in the averaging process. We considered a weighted average approach but decided against it because of the additional complexity, potential for error, and difficulty in verifying the allowances resulting from such a process. Some of this loss of sensitivity is offset by the provision of the on-campus room and board allowance to off-campus students, rather than restricting that category to the current standard $1,100 allowance. Additional sensitivity could be provided through a more realistic allowance for books, supplies, and miscellaneous expenses, since the current $400 are a significant understatement of current expenses encountered by most students.

Just as with enrollment status there is a question of when cost of attendance changes should be made and when they should be verified. We feel that a cutoff date should be set by each school at which time cost of attendance is checked, changes made, and no further changes be made during that term.

Recommendation 3.8: **We recommend instituting a more structured cost of attendance formula which realistically reflects average student circumstances at different types of schools.**

Regardless of the formula used, we recommend that comment be solicited from all interested parties on the establishment of a cutoff date for cost of attendance set by each school (see 3.7).

3.2.3 Incorrect Award Calculation and Disbursement

Both the 1980-81 and 1982-83 Pell Grant Quality Control studies have revealed a significant amount of institutional error in the conversion of cost of attendance, enrollment status, and SAI into an expected disbursement using the official payment schedule. The payment schedule that was used had a great number of small cells that were very easily misread. We recommended at the conclusion of the 1980-81 study that the payment schedule be simplified by increasing the ranges of cost, SAI, or both,

feeling that the small award increments were unnecessarily precise. Such a revision has been made for 1984-85 and should be helpful in reducing that type of error. This appears to be the primary reason for award miscalculations which, along with some minor disbursement errors, amounted to **$24 million** in net program overawards to over **300,000** recipients in 1982-83.

A related problem has been the need to issue revised payment schedules after their initial release. This increased the payment error because aid administrators would unintentionally refer to the old schedule after the new one was issued or would not redo those SARs previously processed. While the new schedules will reduce the "look-up" error, they will not help to ensure that the most current schedule is used.

In order to address both of these problems, we recommend that the current SAR format be revised to include an individualized payment schedule for each official SAI calculated. This would eliminate the need to refer to a separate payment schedule to determine the size of the award. In addition to the SAI, the SAR would show an excerpt from the full schedule for that SAI (see Table 3-4 for a suggested prototype).

Using this new individualized SAR, the institutional staff determining awards would need only determine the student's enrollment status and the cost of attendance range to determine the proper scheduled award. The Department could develop a more condensed payment schedule (in terms of cost of attendance) and a revised SAR format which could accommodate the printing of the appropriate extract from the overall schedule. (The Pell Grant processor could, of course, modify the SAR print program to look up the appropriate section of the schedule for the computed SAI and insert that section onto the SAR.)

We would expect to eliminate most "look-up" error with this approach while assuring that the aid administrator is referring to the most current payment schedule. Relying only upon administrative action the Education Department could have the system developed which could generate and print the new SARs.

Recommendation 3.9: We recommend that an individualized payment schedule be included on a revised format for each official SAI.

TABLE 3-4

PROTOTYPE INDIVIDUALIZED PAYMENT SCHEDULE

Your scheduled award amount will be determined by the official cost of attendance and your actual enrollment status according to the following table for a Student Aid Index of **800.**

Cost of Attendance	ENROLLMENT STATUS		
	Full-Time	3/4-Time	1/2-Time
Up to $ 899	0	0	0
$ 900 - 1,199	300	225	15
$ 1,200 - 1,499	600	450	300
$ 1,500 - 1,799	825	620	410
$ 1,800 - 2,099	975	730	490
$ 2,100 and above	1,150	860	570

3.2.4 Missing Financial Aid Transcript

Up until 1980, it was necessary for the aid administrator to know the number of previous Pell Grant awards ever received by a student who had transferred to his school and had applied for aid, because the Pell Grant program limited eligiblity to a total of four years.* A financial aid transcript (FAT) was to be sent to the new school from the old as a means of documenting and verifying this eligibility requirement. The new school was not allowed to make more than one disbursement to the transfer student until the FAT was on file. According to program regulations, the school would be financially liable for any subsequent disbursements as long as the FAT was missing. In 1982-83 **$95 million**** in awards were made to transfer students whose files did not contain a FAT.

Since 1980, the program has allowed for as many awards as necessary to complete a first undergraduate degree. The institution now only needs to establish that the transfer student's current year award does not exceed his annual entitlement. This means that only the much smaller group of within-year transfers needs to be checked. Therefore, it appears that the amount of information and the consequent time necessary to produce the FAT now exceeds the resulting benefits.

Some further reductions in misawarding could probably be achieved by allowing a substitute for the hardcopy FAT in the student's file. This proxy FAT could take the form of telephone confirmation of a student's current-year awards. And as with other institutional errors, future errors could be reduced if there is an on-going process of updating aid administrators and other relevant institutional administrators as to the nature of the error and the means to correct it.

Recommendation 3.10: **We recommend consideration of a proposal to drop the FAT as a Pell eligibility requirement now that aggregate award limits have been eased, except perhaps for within-year transfers.**

We also recommend that the aid administrator be permitted to place a "proxy" FAT in the student's file if a hardcopy cannot be obtained after reasonable effort.

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*Although it did allow extensions for legitimate five year undergraduate programs.
**This amount includes both first payments, for which there is no institutional liability, and subsequent payments.

3.3 IMPLICATIONS OF THE RECOMMENDATIONS

In this chapter, we have examined feasible corrective actions aimed at reducing specific application form data item errors and specific institutional procedure errors. In understanding the implications of these recommendations in terms of costs, benefits, and administrative requirements it is useful to aggregate the recommendations according to the broad corrective actions themes that they represent. Specifically:

- Targeting validation
- Improving the application form
- Simplifying institutional procedures and policies
- Putting more emphasis on the institution as the focus of quality control.

Targeting Validation

Recommendations were offered to target validation towards error-prone groups and data items. Specifically high error-prone groups of independent status filers, those with large discrepancies between household size and tax exemptions, and those dependent students with projected large drops in their income were identified. The amount of error associated with incorrect determination of dependency status, household size, and dependent student income is high (estimated net overawards of **$64 million, $34 million, and $12 million** respectively) and validation appears to be the best way of identifying and correcting these errors.

As Volume I (Findings) describes, validation targeted at parental and independent student adjusted gross income (AGI) was successful in reducing AGI error in 1982-83. However, this was done by validating most applicants. By targeting validation through Pre-Established Criteria and Error-Prone Modeling a similar level of error reduction can be achieved with a much lower burden on institutions and students.

Thus, it is possible to reduce the burden of validation substantially below 1982-83 levels, maintain a reduced error-level in parental and independent student AGI, and decrease error associated with incorrect dependency status, household size, and dependent student income through validation selection. In Table 3-5 we summarize

TABLE 3-5

WHO SHOULDERS THE BURDEN OF THE CORRECTIVE ACTIONS?

THEME	GOVERNMENT	APPLICANT	INSTITUTION
Target Validation	No Change	Decreased Burden	Decreased Burden
Improved Application Form	No Change	Increased Burden	Decreased Burden
Simplification of Institutional Procedures	No Change	No Change	Decreased Burden
Institution as QC	Decreased Burden	No Change	Increased Burden

thre in burden associated with continued refinement of Pre-Established Criteria and-Prone Modeling for targeting validation.

se recommendations can be implemented for the 1985-86 award year through administrative action. Selection criteria should be determined on the basis of analysis of clearidata to estimate the number of first-time independent applicants who fall varius age, household size, and marital status groups. These group sizes, comb wi our previous analysis of household size versus tax exemptions and expec ver base year income will indicate the target population size for various feasibleien criteria.

Improvii tplication Form

Severaommendations were made to reduce error before it happens by improving tplication form either through clarifying definitions or requesting clarifying iation. This approach seems best fitted toward increasing the accuracy ofcation form reporting of other nontaxable income, household size, and the urin postsecondary education (estimated net errors in 1982-83 of $16 million, $4 on, and $24 million respectively).

Tlprbaid for any reduction in error by this method is an increased burden on the lic. Specifically, our recommendations are for the applicant to provide more rmon than is now requested. We recommend the itemization of the compcs nontaxable income and the names of all family members, and those attena stsecondary institution. In Chapter 4 we discuss the implications of addit clrifying information on forms design, and once implemented, some reduon applicant burden may be achieved.

s design for 1985-86 can still be affected by acceptance of one or more of the nendations. By early summer of 1984 the forms design for that year will hav completed. Therefore, implementing this corrective actions theme for 198quires early decisions by OSFA.

Simplification of Institutional Procedures

We have offered recommendations to reduce institutional error associated with four areas--enrollment status, cost of attendance, award determination, and lack of financial aid transcript (FAT) for transfer students. While the absolute dollar error associated with institutional error is large, the underawards and overawards tend to balance out. This indicates a lack of institutional ability to satisfy compliance with Pell Grant program regulations rather than an attempt to be non-compliant in order to obtain a financial advantage. As such our recommendations are aimed at simplifying and clarifying procedures and policies in order to facilitate greater institutional compliance.

Specific recommendations include a more structured cost of attendance formula, "date-certain" for determining cost of attendance and enrollment status, the reduced use of a FAT, and individualized payment schedules printed on each SAR. The first two recommendations sacrifice some degree of "accuracy" for simplicity. For example, by providing a more structured cost of attendance calculation in an attempt to make it easier to determine cost for Pell Grant award purposes, the cost of attendance calculation becomes less sensitive to individual student differences. Similarly, the establishment of "date-certain" does not take into account subsequent within-term changes that may have a bearing on the actual cost of education that the student faces. Given the magnitude of the absolute error associated with cost of attendance (**$44 million**) and enrollment status (**$148 million**) these sacrifices do not seem unreasonable.

The individualized payment schedule on the SAR of each eligible applicant is a one-time programming burden placed on the application processor. However, it provides not only an accuracy enhancing tool for institutions, but also allows students to more accurately and easily estimate the size of their Pell Grant award prior to submitting their SAR to the financial aid office.

Regulatory action is required for the changes affecting cost of attendance and enrollment status determinations. Thus, while 1984-85 is possible, it is not reasonable for changes to be put in place until 1985-86. Similarly programming the payment schedule onto the SAR can not be achieved before 1985-86. However, it is possible to eliminate or modify the FAT requirements for 1984-85 through administrative action.

The Institution as the Focus of Quality Control

In Chapter 4 we discuss more fully the range of possibilities of putting added emphasis on the institutional role in quality control. The gist of the recommendations presented here is to make the institution responsible for maintaining a low level of error in cost of attendance, enrollment status, eligibility determination, and award calculations. The role of the Education Department becomes one of quality assurance through such techniques as program reviews, audits, and standard reports to identify institutions which are not maintaining high levels of quality.

SUMMARY OF APPLICATION AND INSTITUTIONAL ERROR RECOMMENDATIONS

APPLICATION ERRORS

3.1 Improper Identification of Dependency Status

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 64.0	-	139,000	5.5

Recommendations:

- Expand the validation of first-time independent applicants
  - -- tighten the validation procedures and documentation requirements for these applicants

Management Actions:

- Administrative action only.

3.2 Incorrect Reporting of Other Nontaxable Income (including excluded interest/dividends/tax-free unemployment compensation and tax-free capital gains)

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 46.0	-	254,000	10.0

Recommendations:

- To reduce confusion, specify sources of nontaxable income on form. (See also "Split Form," Chapter 4.)
- Additional training of financial aid administrators to detect oversights from tax forms.
- Possibly crossmatch with other Federal agencies to verify certain benefits (AFDC, Social Security, etc.)

Management Actions:

- Administrative action only.

3.3 Incorrect Reporting of Household Size

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 44.0	$10.0	256,000	10.1

Recommendations:

- Clarify item definition on application and instructions.
- Require listing names of household members. (See "Split Form," Chapter 4)
- Tighten validation specifications, including within-year and between-year changes.

Management Actions:

- Administrative action only.

3.4 Incorrect Reporting of Number in Postsecondary Education

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 32.0	$ 9.0	149,000	5.9

Recommendations:

- Require listing names of household members.
- Clarify issue of inclusion of parents.
- Study possible elimination of item (see Chapter 4).

Management Actions:

- Administrative action only.
- Item elimination would require legislative action.

3.5 Incorrect Reporting of Adjusted Gross Income (AGI) by Parents and Self-Supporting Students

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 26.0	$11.0	102,000	4.0

Recommendations:

- Validate up to ten percent of applications for AGI error.
- Specify, to the extent possible, that the Pell application should be filed after completion of the Federal tax form.

Management Actions:

- Administrative action only.

3.6 Incorrect Reporting of Income by Dependent Students

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 13.0	$ 1.0	37,000	1.5

Recommendations:

- Select for validation those applicants whose projected income drops to less than half of base year income.
- Consider substituting a "self-help" expectation for dependent student income.

Management Actions:

- Administrative action only.
- Requires legislative action.

INSTITUTIONAL ERRORS

3.7 Incorrect Determination of Enrollment Status

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 54.0	$94.0	564,000	22.3

Recommendations:

- Institute more frequent reporting of enrollment status changes.
- Simplify applicable regulations to reduce misunderstanding by setting a "date-certain" for enrollment status determination.

Management Actions:

- The Education Department implemented "rolling" validation roster beginning with 1984-85 processing year (see Chapter 2, Rolling Corrections).
- Requires rulemaking action.

3.8 Incorrect Reporting of Cost of Attendance

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 14.0	$35.0	273,000	10.8

Recommendations:

- Institute a more structured cost of attendance formula.
- Set a "date-certain" for cost of attendance determination.

Management Actions:

- Requires rulemaking action.

3.9 **Incorrect Award Calculation or Disbursement**

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 40.0	$16.0	311,000	12.3

Recommendations:

- An individualized payment schedule should be included in the SAR for each eligible student.

Management Actions:

- Administrative action only.

3.10 **No Financial Aid Transcript (FAT) for Transferred Students**

Estimated Error ($ Mill.)		Recipients Affected	
Overaward	Underaward	Number	Percent
$ 95.0	-	81,300	3.2

Recommendations:

- Drop FAT as an eligibility requirement, except for within-year transfers.
- Allow proxy FAT.

Management Actions:

- Administrative action only.

CHAPTER 4

RECOMMENDATIONS FOR FURTHER IMPROVING THE DELIVERY OF PELL GRANT FUNDS

4.1 INTRODUCTION

The corrective actions already discussed were developed in response to the level and frequency of specific types of error. This is true for the prior corrective actions discussed in Chapter 2 and for the new recommendations provided in Chapter 3. While the development and discussion of these current recommendations are organized on an error-by-error basis, there were certain overall themes.

The overall themes for application or student error are:

- **Targeting validation** in order that this **remedial** corrective action be made more cost effective
- **Improving the application form** as a **preventative** corrective action.

Two themes emerge from the recommendations developed for addressing institutional error:

- **Simplification** as a means of avoiding error-prone situations
- Emphasis on the **institution as the focus of quality control.**

Our development of the set of recommendations described in Chapter 3 was constrained by at least four considerations:

- We focused on one error at a time rather than using a more holistic approach
- We avoided redefinitions of program elements and parameters

- We did not consider recommendations that were inconsistent with program intent
- We only considered the Pell Grant program.

In this chapter we relax the above constraints and attempt to discuss delivery system improvements from a much broader framework or context. The remainder of this chapter is organized about two broad themes which encompass the themes of Chapter 3:

- Keeping error out of the system through simplifying and improving the application process
- Formalizing the role of the institution as the focus of quality control.

4.2 RECOMMENDATIONS FOR KEEPING ERROR OUT OF THE APPLICATION PROCESS

Many of the error-specific recommendations presented in Chapter 3 focused on the application process. Most of these corrective actions were preventative in nature. That is, they focused on keeping error out of the system. Specifically they included:

- Specifying sources of "other nontaxable income" on the application form itself rather than as a worksheet in the instruction package (Recommendation 3.2)
- Clarifying the definition of household size on the application and possibly requiring a list of the names of the members (Recommendation 3.3)
- Requiring the listing of the names of household members attending institutions of postsecondary education and clarifying the inclusion of school-attending parents (Recommendation 3.4)
- Encouraging the submission of the Pell application after the filing of Federal tax forms (Recommendation 3.5).

As already noted, these recommendations were developed using a somewhat constraining error-by-error approach. Moving away from this myopic approach we have been able to develop four recommendations which are broad-based and directed at the application process as a whole. In the following four subsections we discuss:

- Overall simplification of the application form (4.2.1)

- Modification and possible redefinition of dependency status (4.2.2)
- Simplification of the Family Contribution Schedule (4.2.3)
- Improvements in the Corrections Process (4.2.4).

All four are intended to prevent errors from entering the application process so as to prevent rework and duplication of effort.

4.2.1 Overall Simplification of the Application Form

Objectives Enhanced

- Accuracy
- Efficiency
- Ease of application
- Simplicity
- Ease of verification.

Objectives Lessened

- Concise application package
- Ease of handling.

Procedure

Currently, once a Pell Grant applicant answers the dependency status questions and determines whether he/she is dependent or independent, the remaining questions are color-coded -- green for independent and gray for dependent. Similarly, the instructions have colored bars along the edge of the page in order to direct students for proper instructions. Following this color-coded road map appears to be quite confusing because, for example, some parts of some questions require information from both dependent and independent, while other parts only require data from dependent applicants, or vice versa. In response to this problem the Education Department pilot tested a form which, once dependency status was determined,

directed the applicant to a completely distinct set of questions and instructions, i.e., a split form.

If a split form was adopted, the current forms package would have to be lengthened by a page or two to accommodate the separate instruction sheets and the separation of application items. However, we believe that this spacing out of items and instructions can be put to additional good use by improving the specifications for several critical items:

- Other nontaxable income
- Household size
- Number in postsecondary education.

As we explained in 3.2, it would seem advantageous to list as many of the most important sources of nontaxable income on the application instead of on the worksheet. These would include unemployment compensation, tax-free interest, and other welfare benefits. This is likely to cut down on oversights for this item.

Also, the split form would allow space to list the names of all household members and to identify whether they are enrolled in postsecondary education. As we stated in 3.3 and 3.4, we feel that this would reduce these errors while providing a more substantial basis for verification.

Recommendation 4.1: **We recommend that the Education Department develop a suitable "split form." We also recommend that the instructions and specifications for the following items be augmented:**

— other nontaxable income
— household size
— number in postsecondary education.

Assumptions

- Separating instructions for dependent students from instructions for independent students will reduce confusion about data elements.
- While the split form still requires self-classification, the additional space can be used to provide more instructions for the dependency status questions.

Benefits

- Household size less error-prone and easier to verify
- Number in postsecondary education less error-prone and easier to verify
- Fewer errors of omission for other nontaxable income
- Improved reporting of data elements where dependency status affects the definitions
- Reduced dependency status errors
- Easier for students to complete application
- Improved consistency between dependency status and item responses.

Disadvantages

- Larger application package
- Redundancy in instructions.

4.2.2 Modification and Possible Redefinition of Dependency Status

Objectives Enhanced

- Ability to verify data
- Accuracy
- Reliability
- Simplicity
- Ease of application.

Objectives Lessened

- Equity
- Sensitivity
- Family contribution precision.

Procedures

During our study, it became evident how difficult it was for applicants to document their response to the dependency status criterion. In particular, verifying any of projected year criterion is extremely speculative and, even in the base year, the residence and support criteria are difficult to prove. Much of the corroboration on these items came through interviews with the parents of the recipients, though this is hardly a method that can become part of the regular validation process. What then can be done to improve verifiability for aid administrators and documentability for students? Should, for example, all the troublesome criteria be dropped from the definition and thereby rely solely upon exemption criteria in the base year?

It appears from our study that from an error-reducing standpoint, it would not be beneficial to drop projected year criteria or the residence and support criteria. Under the current definition, use of projected year criteria uncovers over 20 percent of dependency status errors (about $13 million in 1982-83). And, while 70 percent of all recipients were found to be dependent on the basis of all three criteria together (for both years), the residence and support criteria alone account for determining 22 out of the remaining 30 percent of truly dependent recipients. This suggests that although tax exemption criteria are the most comprehensive and the most easily verified, especially for the base year, it is not the sole determinant of dependency status.

These findings lead us to suggest methods for improving the verifiability of the current criteria. One way to approach this, we feel, is by reversing the documentation requirements for the residence and support criteria in the base year. For the residence criterion, we would require the applicants to attest and to document, upon validation, that they maintained a residence separate from their parents for 10 or 11 months of the year. This is a more direct residence criterion for which documentation such as rent receipts, leases, and mortgage payments would be concrete evidence. The question could be reworded as follows:

> During the last year, have you maintained a residence separate from your parents for at least 10 months?

For the support criterion, we would request that the applicant demonstrate "self-support" by producing tax forms, wage receipts, award letters, and other proof of earnings.

The application question would be reworded as follows:

> During the last year, have you personally provided over half of the resources required for your support?

These new "own residence" and "self-support" criteria would both make it easier for the student to determine their own eligibility and for the aid administrator to verify their responses.

Recommendation 4.2: **We recommend substituting "own residence" and "self support" criteria for the current parental residence and support criteria as a means of improving the ability to document and verify dependency status.**

Assumptions

- Proposed modifications will not be viewed as dramatic redefinitions of dependency.
- Determination of "number of months" and "proportion of own support" can be done so as to align with stringency of the "42 days" and "$750 support" criteria.

Benefits

- Ease of verification
- Reduction of dependency status errors
- Improved program integrity.

Disadvantages

- Confusion as to definition of separate residences
- Increased validation burden on students.

4.2.3 Simplification of the Family Contribution Schedule

Objectives Enhanced

- Simplicity
- Ease of verification
- Cost efficiency
- Improved accuracy
- Reduced paperwork
- Reliability.

Objectives Lessened

- Sensitivity
- Cost control
- Equity.

Procedure

An applicant for a Pell Grant is asked for a substantial number of financial facts about his parents, spouse, and himself all for use in computing the Student Aid Index. For a dependent student that index consists of three parts -- the parental contribution from income and assets, the student's contribution from assets, and the student's contribution from income; for an independent student just the last two. The information that is requested goes beyond even the Federal tax forms, asking, for example, for nontaxable income from about 15 sources. However, not every financial item contributes an equal weight to the student's award. Simplification promises to reduce reporting requirements by eliminating those items that have limited capacity to discriminate between eligible and ineligible applicants, or to vary award levels. At the same time, it could remove the error associated with those items and their potential misallocation of program dollars.

Could the complexity of the contribution schedule be reduced without endangering, to any significant extent, the awards of most students and the distributional intent of the Pell Grant program?

We could evaluate each item as a candidate for elimination on the basis of each of the following criteria:

- Budget Impact--Budgetary impact of the retention or elimination of the element from the SAI calculation.
  - Rationale: Program simplification should not be used to alter national priorities as to who receives Pell Grant assistance and in what amounts. Nor should program simplification reduce the total Pell budget beyond that realized by error reduction.
  - Definition: The percentage change in total program cost when the element is eliminated is the budget impact of that element.
  - Effects: Elements with low effects are prime candidates for elimination because they do not alter the national priorities of Pell Grant assistance.
    - -- Low: less than 4 percent of total program costs
    - -- Modest: 4-10 percent of total program costs
    - -- High: more than 10 percent of total program costs
- Aggregate Distributional Impact--Distributional impact of retention or elimination on award and award amounts.
  - Rationale: Program simplification should not alter current program targeting or the recipient pool in a significant way.
  - Definition: The percentage shift in the distribution of program benefits across income groups is its aggregate distribution impact.
  - Effects: Elements with low effects are candidates for elimination because they do not appreciably change the distribution of program benefits across income groups.
    - -- Low: less than a 5 percent shift in the income distribution
    - -- Modest: 5-10 percent shift in the income distribution
    - -- High: greater than a 10 percent shift in the income distribution
- Sensitivity--Sensitivity of the SAI to changes in the specific data element.
  - Rationale: Current program sensitivity to important unusual circumstances should not be altered significantly.
  - Definition: The effect on the SAI for 90 percent of recipients with that data element (excluding the 10 percent of recipients with extremely unusual circumstances) is its sensitivity.

- Effects: Elements with low sensitivity are candidates for elimination because the dollar award impact for most recipients with that data element is small.

  -- Low: less than $100 at the 90th percentile
  -- Modest: $101-300 at the 90th percentile
  -- High: over $300 at the 90th percentile

- Reliability--Reliability or accuracy of the specific data item.

  - Rationale: Data elements that are inherently unreliable cause program error, undermine equity goals, and necessitate validation disproportionate to the value of their inclusion.

  - Definition: The percentage of error in initial data collection is its reliability.

  - Effects: Elements with low reliability are candidates for elimination because there is so much error in them.

    -- Low: more than 10 percent error in collecting the item
    -- Modest: 5-10 percent error in collecting the item
    -- High: less than 5 percent error in collecting the item

- Ease of Validation--Ease of verifying or validating the element.

  - Rationale: Data elements that are difficult to validate are also difficult to provide in the first place, and can have serious unknown, uncontrollable effects on the cost-effectiveness and equity of the program.

  - Definition: The cost to the Federal government, the institutions, and the family of documenting reported values adequately is its ease of validation.

  - Effects: Elements with low ease of validation are candidates for elimination because they are difficult to report or document accurately.

    -- Low: relatively unavailable documentation or largely based upon estimates; high cost to secure documentation
    -- Modest: relatively available, relatively complete documentation with only minor estimation; some modest cost to secure documentation
    -- High: readily available, complete documentation of a precise nature; low cost to secure documentation

Table 4-1 shows preliminary results of applying the scheme to data elements now used in the SAI calculation. The assignments of values to data elements is based on

approximate values developed from a review of recipient data. Final policy decisions should be based on a more exhaustive review of an applicant data base.

- Assumptions
  - The table is based on preliminary estimates of effects and the definitions used above.
  - It referes to the SAI calculation not the award calculation. (Social Secuirty Benefits and Veterans Educational Benefits enter the award calculation but not the calculation of SAI.)
  - It differentiates between data elements and application items.
- Highlights
  - The rankings clearly show that several data elements can be eliminated from the SAI calculation with minimal effects.
  - While differences in the rankings of the first seven data elements are small, there is a rapid and continuous drop in the rankings below the first seven elements.
  - Each of the nine data elements could be eliminated individually with minimal budget and distributional impacts. Even if the elimination of all nine had a modest total impact on program cost, this could be easily adjusted for since individual distributional effects are minimal and probably cancel each other out to a great extent.
  - Of these nine elements only four have modest or high sensitivity to unusual circumstances and two of those have low reliability and are difficult to validate.
  - The most attractive alternatives appear clearly to be the 5, 6, or 7 element formulas.
  - These broad results appear to be independent of the specific definitions used.

Recommendation 4.3: **We recommend an evaluation of each item in the family contribution schedule as to its impact on award size and distribution as well as its reliability, sensitivity, and ease of validation.**

Assumptions

- Program parameters can be adjusted to eliminate overall budget changes and to control distributional changes.

TABLE 4-1

RANKING THE DATA ELEMENTS

DATA ELEMENT		Budget Impact	Distrib. Impact	Sensitivity	Reliability	Ease of Validation
Adjusted Gross Income	(1)	H	H	H	H	H
U.S. Taxes Paid	(1)	H	H	H	H	H
No. of Exemptions	(1)	H	H	H	H	H
Non Taxable Income	(3)	H	H	H	M	M
Student/Spouse Income	(1)	M	H	H	M	M
Liquid Assets	(4)	M	M	H	M	M
No. in P.S. Education	(1)	M	M	M	M	M
Medical/Dental Expenses	(1)	L	L	H	M	M
Unreimbursed Tuition	(1)	L	L	M	M	M
Earned Income Portions	(2)	L	L	L	M	M
Parent Marital Status	(1)	L	L	L	M	M
Student Marital Status	(1)	L	L	L	M	M
No. Of Student's Dependents	(1)	L	L	L	M	M
Home Equity	(2)	L	L	M	L	L
Business/Farm Equity	(2)	L	L	M	L	L
Student/Spouse Exp. Income	(5)	L	L	L	L	L

Notes:

- Corresponding number of application form items is in parenthesis
- Estimates based on definitions cited in the text and preliminary estimates and judgements
- All effects refer to the SAI not awards

- The Campus-Based programs can be used to account for special circumstances.
- It is possible to predict changes in applicant pool.

Benefits

- Reduced reporting burden for students/parents
- Improved accuracy of data
- Lesser cost of processing applications including:
  - -- lower initial costs
  - -- fewer corrections
- More timely delivery of aid.

Disadvantages

- Less sensitivity
- Equity changes
- Less ability to handle special circumstances.

4.2.4 Improvements in the Corrections Process

The three recommendations developed above do not address the quality problem that is introduced by the corrections process since the error or payment consequences are not concentrated in any one data element or small set of data elements. Rather, error introduced in the corrections process has consequences that cut across and affect all application items.

Table 4-2 indicates the effect of corrections for two groups of students. Students not selected for validation had corrections which increased their eligibility (decreasing SAIs) in 44 percent of the cases--compared to 9 percent with decreased eligibility. The results are quite different for validated students, where the percentages are nearly reversed. Thus, abuse of the corrections process can result in higher aggregate expenditures because of resulting increases in overpayments and overawards.

In order to address the problem(s) associated with the corrections process we are making two recommendations:

- Establish a firm cut-off date for all corrections
- Eliminate or prohibit post-validation corrections.

Objectives Enhanced

- Cost efficiency
- Accuracy
- Timeliness
- Reduced paperwork
- Cost control

Objectives Lessened

- Increased burden on students
- Equity

Procedures

At present, there are three methods of initiating corrections to original application data. One is the fairly restrictive process of submitting a Special Condition Application under specified situations felt to identify those applicants who have experienced a significant change of circumstances subsequent to the initial application submission.

The second is the Corrections Application, in reality only a resubmission of the original application which could not be processed. This route can only be initiated by the processor, not by the applicant, and thus does not seem to present any additional problem to student error, beyond the normal limitations of the application itself.

TABLE 4-2

SAI CHANGES INTRODUCED THROUGH THE CORRECTIONS PROCESS

	Randomly Selected and Validated	Not Selected For Validation
Percent Increasing SAI	44%	9%
Percent Decreasing SAI	18%	44%

The third method is the most frequently used one--the submission of corrections to the Student Aid Report (SAR). There are several legitimate reasons that students submit corrections to the SAR:

- To correct accidental misstatements of fact by the applicant at the time of original submission resulting from a misunderstanding of what was being requested that is now, upon review of the SAR, more evident even without edit messages
- To correct misreporting resulting from incomplete information at the time of submission--identified by the applicant
- To correct data entry errors--the proper data were reported, but were miskeyed or misread mechanically
- To clarify what was reported earlier--incomplete or inaccurate data identified by the edit process and confirmation or correction requested via SAR messages.

In theory, Pell Grant applicants are not allowed to make adjustments which would reflect changes in their circumstances occurring after submission of the initial form, (except through a Special Condition Application). The problem is that it is impossible to separate intentional change from necessary corrections. The paradox is that an applicant may not "change" his/her application but he/she can "correct" it throughout the year. As a result there is no way to readily control or limit the number of applicant changes which are not legitimate while not penalizing other applicants who have corrections to make.

We would recommend that any changes which are made to the initial Student Aid Report must be certified by a financial aid administrator before being sent to the processor for correction. If, after an applicant receives his first SAR, he notices errors they should be noted and submitted by meeting with an aid administrator. In keeping with our other recommendations, we would suggest instituting a cutoff date for corrections. This date could correspond with the enrollment status or cost of attendance date-certain (see 3.7 and 3.8) or it could be the date of a student's validation, whichever came later in the term. Tying it to some date by which the student will have had the opportunity to discuss the situation with the aid administrator should assure that any items to be corrected will be checked before resubmission. For validated students, no corrections should be permitted after validation during that term.

Recommendation 4.4: **We would recommend establishing a cutoff date for student-initiated corrections for all applicants. For validated applicants, no further corrections would be permitted after validation.**

Assumptions

- Initial errors can be corrected before the cut-off date.
- Cut-off dates need to take account of calendar differences.

Benefits

- Reduced program error resulting from abuses to the corrections process
- Lower processing costs because of reduction in corrections
- Measured program integrity.

Disadvantages

- Lessened sensitivity
- Increased student burden
- Increased institutional burden

4.3 FORMALIZATION OF THE ROLE OF THE INSTITUTION IN QUALITY CONTROL

The recommendations associated with specific institutional errors discussed in Chapter 3 are based on two underlying themes:

- Simplifying institutional processes associated with determinations, verifications, and calculations
- Emphasizing the role of the institution as the focal point of quality control.

These two themes were used to develop the specific recommendations presented in Chapter 3. These recommended corrective actions were tempered by the following considerations:

- Dealing with a single error at a time
- Not redefining any key program elements
- Preserving program intent
- Restricting certification to the Pell Grant program.

Specifically, we recommended:

- Amending enrollment status regulations to reduce misunderstanding by setting a "date-certain" for enrollment status changes
- Instituting a more structured cost of attendance formula and establishing a "date-certain" for cost of attendance determination
- Providing an individualized payment schedule directly on the SAR for each eligible student
- Eliminating the requirement for the financial aid transcript (FAT), except for within-year transfers and allowing proxies where hardcopy transcripts are not available.

In order to address the larger issues associated with overall institutional processes we are providing a recommendation aimed at:

- Formalization of the institution's responsibility for quality control.

4.4.1 Formalization of the Institution as the Focal Point for Quality Control

Objectives Enhanced

- Efficiency
- Accuracy
- Accountability
- Institutional autonomy
- Reliability.

Objectives Lessened

- Federal cost control
- Administrative burden.

Procedure

Quality and accuracy in the Pell Grant program must be incorporated at the point where the services are provided. The Federal government cannot regulate or establish quality in what is essentially an institutionally administered program. This theme of making quality the responsibility of the production organization is a common thread which runs throughout industrial quality control. It is variation of the notion that you cannot inspect quality into a unit; quality must be built in.

The Federal government utilizes this approach to quality control in the Aid to Families with Dependent Children (AFDC), Food Stamps, and Medicaid programs. All three of these programs are jointly administered by the states and the Federal government. While the exact split differs the state governments are generally given the responsibility for quality in these programs with the Federal government establishing fairly broad requirements.*

Current practice in the Pell Grant program is for the Federal government to take responsibility for quality. The Federal government attempts to improve quality through the "edits," "comments," and "reject" schemes used in the application processing software system. Validation selection and procedures are currently dictated by the Federal government.

This Federal approach to quality control in the Pell Grant program may not be appropriate because of two issues:

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*Advanced Technology, Inc., An Analysis of Quality Control Regulations for Selected Federal Entitlement Programs, November 1983.

- Quality problems (or errors) may best be identified and addressed at the local level where more information is available to the Financial Aid Administrator.
- Incentives for improving quality (reducing errors) are not provided to the institutions.

A move toward making the institution the focal point of quality control would address both of these issues.

The Federal government can make the institution the focal point for quality control by establishing quality control regulations for all student financial aid programs. In addition, the Department should establish quality incentives and provide technical assistance to schools. Thus, there is a three-prong approach to making the institution the focal point of quality control:

- Regulations
- Incentives
- Technical assistance.

The regulations would establish the requirement that institutions have an approved quality control plan developed in accord with minimal Federal standards. The plan must represent a comprehensive scheme to control error, fraud, and abuse. The institution would be allowed wide discretion in designing their system as long as the methods and procedures could reasonably be expected to control error and promote quality. OSFA is currently soliciting opinions on a quality control regulation for the Campus-Based and Guaranteed Student Loans programs. This regulation involves the selection of a random sample of cases in order to estimate the institution's error rate. The level of the error rate dictates the number of cases the institution must review in order to meet desired levels of quality. In such a scheme the institution has discretion in establishing its quality control system, while the Federal government specifies the desired quality levels.

The incentives could be tied to the administrative allowance granted to institutions. A school whose error rate was significantly above national norms would receive a lower allowance. Schools with exemplary error rates would be granted higher administrative allowances. Schemes of this nature are used in Federal

entitlement programs such as the AFDC and Food Stamps programs. In these programs administrative allowances are adjusted depending on the relationships between the state's error rate and either the national error rate or a specific numeric standard.

In the Campus-Based/GSL regulations under consideration by the Department the institutions are provided incentives for improving quality because the number of cases the institution needs to review decreases as quality improves. The institution is also allowed to select these review cases using the most effective techniques possible.

The Federal government technical assistance would take three forms:

- Development and dissemination of a quality control handbook for institutions
- Inclusion of quality control modules in training programs
- Provision of quality control specialists to assist schools in improving quality.

The Division of Quality Assurance (DQA) is currently developing a handbook entitled Quality Control in the Institutional Delivery of Student Financial Assistance. This manual addresses the following topics in a nontechnical manner:

- Establishment of a Quality Control Program
- Design of a Quality Control Program
- Implementation and Operation of a Quality Control Program
- Evaluation and Enhancement of a Quality Control Program.

In addition to its role of facilitation through the provision of regulations, incentives, and technical assistance, the Federal government should take the lead in quality assurance. The Department should perform audits, externally assess quality levels, and monitor the quality control activities of the institutions. Thus, quality control will be the responsibility of the institution but the Department will provide the assurance that institutions are actually carrying out and accepting this responsibility. These distinct roles and responsibilities should be clearly delineated in the regulations.

Recommendation 4.5: **The Department of Education should establish the institution as the quality control focal point by developing regulations, providing incentives, and providing technical assistance. In addition, the Department should assume the quality assurance function.**

Assumptions

- Instituting up-front, preventative quality control at the institutional level is cost-efficient.
- Acknowledged base exists which can be modified for campus utilization.

Benefits

- Aligning responsibility for quality with the providers of service
- Reducing error
- More timely processing
- Less Federal involvement
- Increased institutional autonomy.

Disadvantages

- More burden on institutions
- Knowledge gap at campus level.